

## Message Text

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C O N F I D E N T I A L STATE 031396

C O R R E C T E D C O P Y (2ND LINE OMITTED IN PARA 35)

E.O. 11652: GDS

TAGS: ECON, EFIN, NATO, YO

SUBJECT: ECONADS: WORKING PAPER ON RECENT DEVELOPMENTS  
IN THE YUGOSLAV ECONOMY (AC/127-WP/413, DEC 30,74)

REF: NATO 62, NATO 235, NATO 237, BELGRADE 193, STATE 9371,

1. FOLLOWING ARE COMMENTS ON WORKING PAPER. FOR  
CONVENIENCE, COMMENTS ARE KEYED TO PARAGRAPHS OF WORKING  
PAPER. HOWEVER, PREPARATION OF ACCEPTABLE FINAL REPORT  
WOULD REQUIRE EXTENSIVE REWORKING OF MATERIAL, INCLUDING  
COMPLETE REWRITE OF SUMMARY SECTION. MISSION SHOULD PRESS  
THIS VIEW IN FEB. 13 MEETING OF ECONADS.

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I.A.1. INFLATION RATE THROUGH NOVEMBER 1974 IS AVAILABLE FROM YUGOSLAV STATISTICAL PUBLICATION INDEKS OR, THROUGH AUGUST, IN OECD "MAIN ECONOMIC INDICATORS" OF DEC. 1974. ALSO, IMF "INTERNATIONAL FINANCIAL STATISTICS" DEC. 1974 SHOWS PRICE SERIES. NOTE OECD SERIES ON FUEL PRICE IN YUGOSLAVIA WHICH STANDS AT 496 (BASE YEAR 1970 EQUALS 100).

3. STAGNATION OF PRODUCTION THESIS IS NOT BORNE OUT BY IFS STATISTICS. SHARP MONTHLY DROP JUNE TO JULY WAS EXCEEDED BY SUCCESSIVE INCREASES IN AUGUST, SEPT AND OCT. YEAR-END ESTIMATES SHOW INCREASE OF NEARLY 10 PERCENT. SINCE WORKING PAPER IS DESIGNED TO SHOW TRENDS, BELIEVE THE LATER DATA SHOULD BE TAKEN INTO ACCOUNT IN ORDER TO SMOOTH ZIGS AND ZAGS. WE WOULD NOTE THAT THE RETRENCHMENT OF CREDIT POLICY WAS NOT DESIGNED TO ERADICATE INFLATION AND SHOULD NOT BE FAULTED FOR FAILING TO DO SO.

4. YEAR-END FIGURES SHOW RETURN OF SOME 50,000 WORKERS DURING 1974, OWING IN PART TO REDUCTION IN EMPLOYMENT IN OTHER COUNTRIES. DOMESTIC EMPLOYMENT WAS UP, HOWEVER, BY SOME 4 1/2 PERCENT. WHILE AVERAGE REAL INCOME IN 1973 REGISTERED A DROP OF 4.7 PERCENT, A GROWTH RATE OF 6.7 PERCENT WAS MARKED OVER THE PERIOD JANUARY THROUGH NOVEMBER 1974. (SOURCE: INDEKS, JAN 1975.)

5. CIRCULAR REASONING IS EMPLOYED HERE--PRICES ROSE BECAUSE WHOLESALE AND RETAIL PRICES ROSE. WE WOULD SUGGEST THAT THIS PARAGRAPH REACH TO UNDERLYING CAUSES--E.G. INCREASES IN WAGES, SHARP INCREASES IN INVESTMENT EXPENDITURES, AND INCREASE IN THE OIL BILL. TABLE I MAY BE UPDATED FROM INDEKS OR FROM IMF STATISTICS. BOTH THE IMF AND THE OECD RELY ON INDEKS FOR OFFICIAL DATA.

7. SUGGEST DELETION OF PARAGRAPH 7, UNLESS THIS THESIS CAN BE SUPPORTED BY EXTENSIVE ANALYSIS.

8. WE BELIEVE THAT PARAGRAPH 8 IS SUBSTANTIALLY ACCURATE, BUT WE WOULD NOTE THAT THIS IS THE REVERSE OF THE THESIS ADVANCED IN PARAGRAPH 3 WHICH ASSERTS A DECLINE IN INDUSTRIAL

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11. (AND II. STRUCTURAL IMBALANCE). WE BELIEVE THAT THE "STRUCTURAL IMBALANCES" THESIS IS OVERSTATEMENT OF DISCUSSION IN OECD, "ECONOMIC SURVEY OF YUGOSLAVIA," 1974. IT WAS INTENT OF OECD TO REPORT ON DEBATE (ALBEIT INTERESTING) AMONG ECONOMIC PROFESSION IN YUGOSLAVIA REGARDING RELATIVE PRICES. WE WOULD HESITATE TO ADVANCE A STANDARD FOR

"STRUCTURAL BALANCE" IN THE YUGOSLAV ECONOMY.

A. 12. WHAT IS REASONING HERE? IT MAY BE ARGUED THAT YUGOSLAVIA IS EXCESSIVELY DEPENDENT ON IMPORTED GOODS FOR CONSUMPTION BUT THE PROPORTION OF CONSUMPTION GOODS IMPORTED IS NOT SHOWN. THE PERFORMANCE OF THE AGRICULTURAL SECTOR DURING 1974 WAS GOOD. A NEGATIVE FACTOR WAS THE DECLINE IN MEAT EXPORTS BECAUSE OF THE EC BAN ON MEAT IMPORTS, AS NOTED PARAGRAPH 34 OF DRAFT.

13. THE SITUATION OF THE SOCIALIST SECTOR RELATIVE TO THE PRIVATE SECTOR IS GREATLY DIFFERENT FROM REPUBLIC TO REPUBLIC. THE GENERALIZATION HERE IS PROBABLY UNWARRANTED.

II.B.15. THE DISCUSSION HERE SEEMS TO IMPLY THAT ALL INDUSTRIES SHOULD GROW AT THE SAME RATE, CLEARLY IMPOSSIBLE, AND NOT DEMONSTRABLY DESIRABLE. WE WOULD SUGGEST DELETION, UNLESS STRONG SUPPORT IS AVAILABLE. THE FACT OF INCREASED IMPORTS (CITED IN PARA. 16) IS NOT NECESSARILY A DISABILITY.

17. THE FACT THAT IMPORTS OF PLANT AND EQUIPMENT PRODUCE AN OUTFLOW OF RESOURCES ON CURRENT ACCOUNT IS NOT UNEXPECTED.

19. THIS PARAGRAPH IS NOT CLEAR. WHAT WEAKNESS IS BEING CITED?

20. SUGGEST DELETION OF LAST TWO SENTENCES.

C. REGIONAL INEQUALITIES.

21. BELIEVE THAT STATISTICS CITED ARE NOT PERCENTAGES BUT CONFIDENTIAL

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MULTIPLES, IE. TWO AND ONE-HALF TIMES RATHER THAN TWO AND ONE-HALF PERCENT.

22. WE WOULD SUGGEST THAT PARAGRAPHS 22 THROUGH 24 BE DELETED. WE CANNOT SUPPORT THE ARGUMENTS MADE HERE.

25. DELETE LAST PHRASE WHICH CONTRADICTS FIRST SENTENCE.

26. DELETE MATERIAL IN PARENTHESIS, SINCE PRICE IS BUILT INTO THE STATISTICS ON VALUE OF EXPORTS AND IMPORTS. THESE STATISTICS MAY BE UPDATED FROM RECENT ISSUES OF INDEXES.

28. THE USSR CHARGES WORLD PRICES FOR ITS PETROLEUM EXPORTS. WE BELIEVE THAT POLAND ALSO CHARGES WORLD PRICES.

30. WE WOULD SUGGEST DELETION OF PARAGRAPH 30 WHICH SUGGESTS A SURPLUS OF SUPPLY OVER DEMAND FOR PETROLEUM PRODUCTS.

31. THE LAST SENTENCE SHOULD BE ALTERED TO READ, "THE REPERCUSSIONS ON THE EMPLOYMENT SITUATION WOULD BE ALL THE MORE SERIOUS IF IMPORT CURBS WERE EXTENDED TO INVESTMENT GOODS AND RAW MATERIALS.

35. TABLE IV. THE HEADINGS "IMPORTS" AND "EXPORTS" ARE TRANSPOSED. TABLE IV COULD USEFULLY BE UPDATED USING INFORMATION IN IMF, DIRECTION OF TRADE, OCTOBER 1974. THE INSERT TO THAT PUBLICATION SHOWS THAT THE PAYMENTS OF YUGOSLAVIA TO OIL EXPORTING COUNTRIES ROSE BY THREE TIMES OVER BETWEEN 1972 AND 1973, THE TREND CONTINUING IN 1974.

37. IN THE INTEREST OF ACCURACY A FINAL SENTENCE SHOULD BE ADDED: AS A SOURCE OF IMPORTS, THE USSR IS IN THIRD PLACE, SIGNIFICANTLY BELOW THE FRG AND ITALY. (SOURCE: INDEKS, JAN. 1975. DATA THROUGH 11/74)

38. PLEASE NOTE THAT YUGOSLAVIA IS AN ASSOCIATE MEMBER, OF COMECON, THUS DISTINCT FROM A NON-MEMBER, JUST AS YUGOSLAVIA IS AN ASSOCIATE MEMBER OF THE OECD.

39. DELETE 39, 40, AND 41.  
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42. YEAR-END FIGURES REVEAL THAT BOTH RECEIPTS FROM TOURISM AND WORKERS REMITTANCES BOTH ROSE, ALTHOUGH AT REDUCED RATES FROM PREVIOUS YEARS.

44. THE EXPECTED DROP DID NOT MATERIALIZE.

45. THE MOST SIGNIFICANT FACTOR IN THE DECLINE IN THE CURRENT ACCOUNT WAS THE INCREASE IN THE OIL BILL. ACCORDING TO A YUGOSLAV OFFICIAL (VICE PREMIER BORISLAV SEFER, SPEECH BEFORE THE SFRY ASSEMBLY, JULY 23, 1974).

"IT IS ESTIMATED THAT THE DEFICIT IN THE BALANCE OF PAYMENTS IN THIS YEAR (1974) WOULD AMOUNT TO ABOUT 720 MILLION DOLLARS. THE INCREASED PRICE OF CRUDE OIL ALONE CREATED A DIFFERENCE AMOUNTING TO ABOUT \$600 MILLION." IMF STATISTICS AS OF JAN. 23, PLACE 1974 OIL DEFICIT AT 600 MILLION SDR OR ABOUT 708 MILLION DOLLARS.

46. IT IS DIFFICULT TO SEE HOW ANY COUNTRY CAN INVEST IN EXCESS OF DOMESTIC SAVINGS WITHOUT CAPITAL FLOWS FROM FOREIGN COUNTRIES.

49. DELETE LAST SENTENCE.

51. DELETE LAST TWO SENTENCES. THE SUBJECT OF THESE TALKS  
IS THE DRAWDOWN OF THE EXISTING LOAN (CITED PARAGRAPH 47)  
WHICH IS IN RUBLES, NOT DOLLARS OR OTHER CONVERTIBLE  
CURRENCY.

IN CONCLUSION, ALTHOUGH WE HAVE NOT ATTEMPTED REDRAFT,  
FOREGOING COMMENTS, PARTICULARLY THOSE PERTAINING TO OIL,  
THE TRADE BALANCE, AND CONSISTENCY OF ANALYSIS THROUGHOUT,  
SHOULD BE TAKEN AS BEARING ON ENTIRE PAPER. INGERSOLL

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